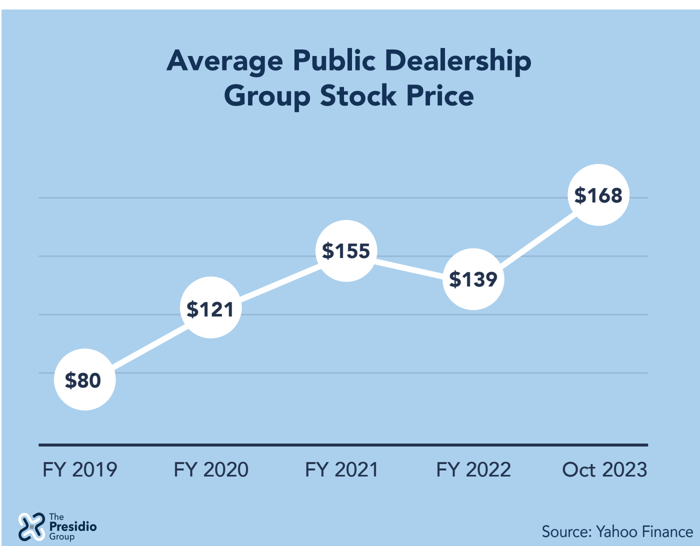
PUBLIC DEALERSHIP GROUP TRENDS

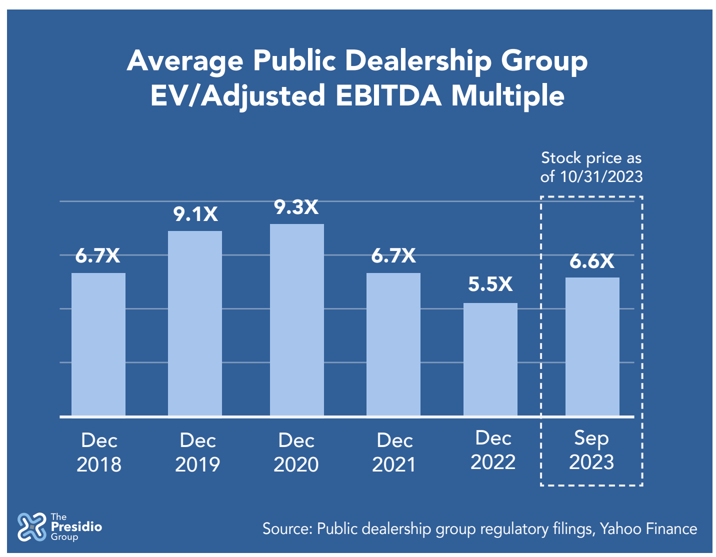
In the highly fragmented auto retail sector, the six publicly traded dealership groups provide a window into overall industry performance. In aggregate, the public retailers own around 6 percent of U.S. dealerships.

The valuations of the public groups also provide the only independent barometer of dealership values in a sometimes opaque industry. After all, the actual values and cash-flow multiples of nearly all the sector's dealership buy-sell transactions are not publicly disclosed. Dealership valuation insight from the publics doesn't come solely from their stock prices, which ignore numerous valuation-related components and are not comparable to how private dealerships trade. Rather, that insight comes from calculating a ratio of enterprise value to earnings before interest, taxes, depreciation and amortization for the publics. That EV/EBITDA ratio essentially equates to a total cash-flow multiple based on the total combined value of the given business.

$$\frac{\textbf{Enterprise Value (Market Cap + Debt Outstanding + Working Capital)}}{\textbf{Trailing Adjusted EBITDA (Earnings before interest, taxes, depreciation and amortization)}}$$

The publics collectively trade for 6.6X EBITDA based on their earnings and balance sheet data reported Sept. 30 and their stock price as of Oct. 31. Converting a blue-sky multiple to a total cash-flow multiple on average adds 1.5-2.0X in a typical transaction. That implies an estimated blue-sky multiple for public dealership groups ranging between 4.6 and 5.1X. While public retailer stock prices are near all-time highs, their EV/EBITDA multiples are 25 percent lower than in 2019 and 2020, indicating the equity markets are discounting the multiple because current earnings levels are unsustainable.

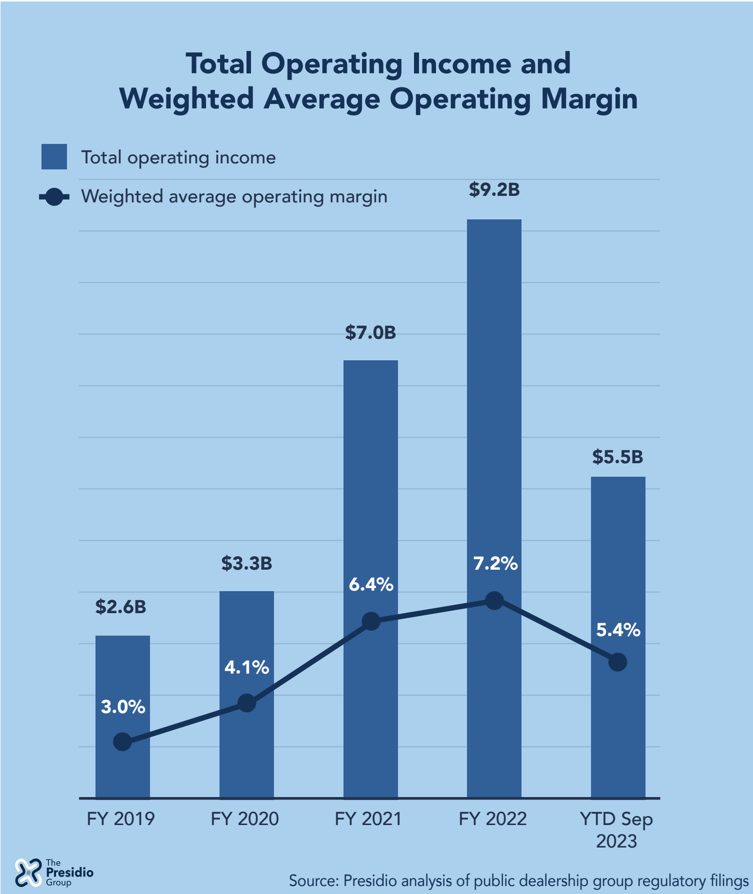


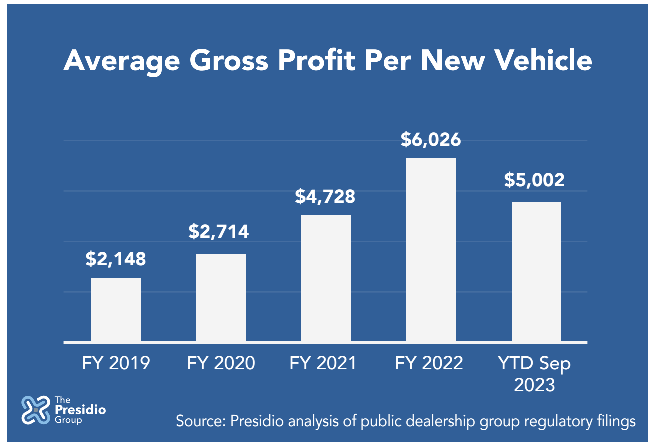


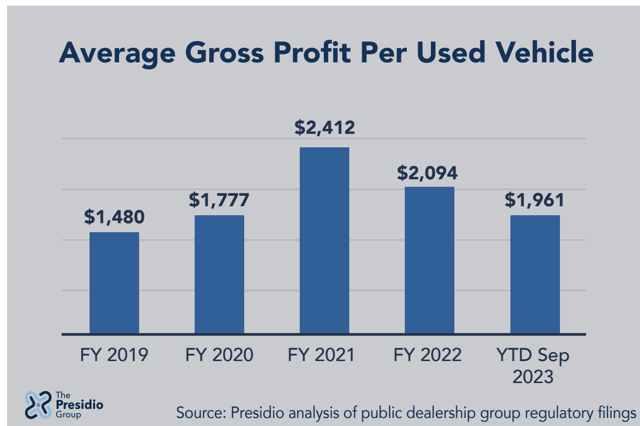
Indeed, as automakers have resolved supply constraints and ramped up inventory, margins have come under pressure.

Margins and profitability are moderating for both public and privately owned retailers as the industry normalizes. For the publics, gross margins per retail vehicle in new, used and finance and insurance have declined throughout 2023, while expenses have increased.

One bright spot is fixed operations, where gross profits rose by 23 percent on average for the publics on a same-store basis. That growth in part is tied to both an aging vehicle fleet with more intensive service needs and increasing labor rates for dealerships.







Public Company Liquidity & Growth Strategies

Even with the robust deal-making of the last few years, the balance sheets of the public retailers are primed for additional acquisitions. The publics at the end of the third quarter collectively had $7.9 billion of capital available under current agreements, cash and short-term investments that could be called upon to finance acquisitions. That's double what the group had at the end of 2019.

Our expectation is that the publics will continue to drive consolidation. Large private dealership groups also have collected outsized profits in recent years, creating a well-funded and robust industry. We think some publics and key private dealers may be seeking large billion-dollar acquisitions in the near term.

The implication of that is two-fold:

- The industry is better set up for accelerated consolidation today than at any time in the past.
- There may be no better time for a private megadealer to pursue an exit than today.

Asbury is the most organic pure-play U.S. consolidator and one of the most aggressive bidders for large groups in its target markets today. It had been largely quiet on the acquisition front since closing its purchase of Larry H. Miller Dealerships in late 2021. After divesting some stores to appease automaker requirements and raising capital by selling a non-core platform, Asbury went back on the hunt in 2023 and in December acquired Jim Koons Automotive Cos.

After a long period of relative inactivity in the buy-sell market, AutoNation is looking to purchase large dealerships in and around its core markets. In a pivot from previous management, CEO Mike Manley, a Brit, is open to overseas expansion as fitting with management's culture and knowledge. AutoNation made a play this fall for Pendragon of the United Kingdom, which eventually made a deal with Lithia.

With nearly $1 billion of revenues acquired through the first nine months of 2023, Group 1 is demonstrating efficient deployment of capital by buying dealerships for an estimated 30 percent of revenues collectively, excluding real estate, according to a Presidio analysis of company regulatory filings. Group 1's purchases — all in the country's fast-growth states of Florida and Texas — show there are large dealerships available at reasonable acquisition prices today. Group 1 also has divested several stores so far this year.

Lithia aims to reach $50 billion in annual revenue by the end of 2025 and has targeted acquiring $3 billion to $5 billion of revenues annually. While the U.S. is considered its primary market, Lithia is opportunistically looking globally, evidenced by two large deals this year. Lithia purchased Jardine Motors of the United Kingdom in March and has agreed to buy Pendragon of the U.K., with the latter transaction expected to close by late 2023 or early 2024. Lithia's strategic focus in the U.S. is to have locations within 100 miles of most U.S. households thereby allowing the company to leverage its Driveway digital retailing platform.

Penske has been a fairly inactive acquirer of U.S. dealerships among the publics in recent years. In early December, it announced an agreement to buy 15 U.K. dealerships representing $1 billion in annual revenue from Rybrook Group. Penske has one of the most diverse set of offerings in the peer group and plans to continue to expand opportunistically.

Sonic continues to expand segments of its business outside of franchised automotive. Sonic's franchised dealership buys — outside of its large RFJ Auto Partners acquisition in 2021 — have been limited. The company is paring its Echo Park used-only segment and expanding a fairly new powersports unit.